

**COMMITTEE ON ACCOUNTS, ENROLLMENT & REVENUE  
ADMINISTRATION**

**May 20, 2003**

**4:15 PM**

Chairman Shea called the meeting to order.

The Clerk called the roll.

Present: Aldermen Shea, Guinta, Smith, Thibault (late), Lopez

Messrs: Kevin Clougherty, Sharon Wickens, Steve Hoeft, Mike Farren,  
Randy Sherman

Chairman Shea address Item 3 of the agenda:

Communication from Guy Beloin, Financial Analyst II, submitting  
the City's Monthly Financial Statements for the ten months ended  
April 30, 2003.

Chairman Shea asked Kevin are you representing Guy today? I just have a question. do we have any idea at this time Kevin what departments will be short on either revenues or expenditures or things...what do you anticipate? Just for way of discussions quickly.

Kevin Clougherty replied if you take a look at the report and turn to the budget by expenditures, and comparing the two fiscal years, which is page 3, and if you were to go down and take a look at what percentage was unobligated for the period versus the comparable period before. Going through April you've got May and June left so everybody should have somewhere around 16 percent left in your budget and you can see that most of the departments are well over that. There are some, as you know, that have the seasonal things like PBS where we pay the contractor fund always lower or info systems. But for the most part our understanding is that everybody's in good shape with respect to their expenditures. Similarly with respect to revenues, we're still running behind. We're still looking at as Joanne had predicted about \$1 million shortfalls in those categories such as interest earnings, auto registrations. Auto registration is performing better than it did last year, but not up to the expectation that was in the budget, so that's a shortfall we're going to have to deal with. But again

we're moving in that same direction; we're moving consistent...we haven't seen anything in the last month that shows that might change.

On a motion Alderman Smith, duly seconded by Alderman Lopez, it was voted to accept the report.

Chairman Shea addressed Item 4 of the agenda:

Communication from Sharon Wickens, Financial Analyst II, submitting reports as follows:

- a) department legend;
- b) open invoice report over 90 days by funds;
- c) open invoice report all invoices for interdepartmental billings only;
- d) open invoice report all invoices due from the School Dept. only; and
- e) listing of invoices submitted to City Solicitor for legal determination.

On a motion of Alderman Smith, duly seconded by Alderman Guinta, the item was moved for discussion.

Alderman Smith asked on page 7 we have ComCast. I know they're coming up before us and they owe us for Police extra detail over 90 days.

Sharon Wickens stated actually we do have somebody from Police here. Maybe they...I'm not familiar with that.

Steve Hoeft replied ComCast has paid.

Alderman Smith stated I see that we have our same individuals on there. What's the prognosis? Those are the ones I've been after for months and months and months.

Ms. Wickens replied you have and I actually knew you'd bring that up so I did talk with the City Clerk's office today. Another letter is going out because they also have not paid their business license. So it's not just the toters that are owed at this point, it's the business license as well.

Alderman Lopez stated page 14 and 15, on the permits. Tom Arnold I wish he was here for the record, he called me and told me that we couldn't treat them the same way as we do a traffic violation. What are we doing to try to collect these people or on permits that they haven't paid us?

Ms. Wickens replied actually this list for this particular permit area was really bad. The Traffic Department has spent a lot of time cleaning this up. This past check that came in from the collection agency was \$3,000. They're collecting it...she's really done a great job cleaning it up. I think it's cut down and I expect a lot more to come in. The problem was a lot of it hadn't even been sent for collection. But she put a lot of things on hold in order to catch the collections up. Now I can see that they're starting to stream in for the permits. She's booted a number of cars, which has also pushed people to pay.

Alderman Lopez stated I talked to her and I know she was working with you on it. Have you two talked about any type of maybe policy that we can establish where they pay a month in advance, because I understand a lot of these people just leave and don't pay?

Ms. Wickens replied right, and if they leave and don't pay, and you're only talking a month or so, that's \$40.00, but when it starts to get to be about eight months before you go after them, then that's a problem. Denise didn't talk about paying in advance but she did talk about booting cars after like a two-month period after strong letters, in the third month boot the car.

Alderman Lopez stated maybe that's what she was talking about then.

Ms. Wickens replied right. She's stepping that up. Before she was, oh I'm going to come in, I'm going to pay. Well that wasn't happening so...I mean you try to work with these people but sometimes you just can't. You can't wait that long.

Alderman Lopez stated please continue to work with her.

Alderman Guinta asked it looks like State of New Hampshire owes us money?

Ms. Wickens asked what page are you looking at?

Alderman Guinta replied page 13. Is that accurate? \$26,000?

Ms. Wickens replied I guess I missed that one before. I would imagine it is. I will call Denise when I get back to find out exactly what it's for.

Alderman Guinta stated there's a couple...I think there's a few others I saw. Page 21 from the NH Division of Public Health Services, it looks like the total for HIV prevention and STD clinics, that's a total \$28,000. So there's like \$50,000 between those two.

Ms. Wickens replied right and I want to say that that one...there was a delay for us putting it in the system and we put it in giving it a 10/1 date which aged it, but I'm not so sure that that bill went out all that long ago.

Alderman Guinta asked and then the terminal rent on Page 23, by United Airlines? Well that whole page. But there are others too. Continental Air, Colgan Air, Allegheny Air. Are they all bankrupt?

Chairman Shea interjected I believe that that's sort of...

Mike Farren stated I am the Assistant Airport Director for Finance and Administration. Of all of the 90 days or more that you see on the listing, airline bankruptcies account for \$342,386 and they FAA reimbursements account for \$1,377,820.

Alderman Guinta asked can you repeat that number?

Mr. Farren replied FAA reimbursements and TSA \$1,377,820. Those are reimbursement requests that go in after we've initiated capital projects. It takes sometimes considerable time to close out these reimbursements requests. We've never had an instance where we didn't get the money that was owed us. But the bankruptcies are mainly United and US Airways and their express commuter carriers, which is Colgan, Allegheny, those types of carriers.

Alderman Guinta asked how about Piedmont?

Mr. Farren replied Piedmont is a US Airways carrier.

Alderman Guinta asked so the likelihood of us getting the \$342,000 is pretty sure?

Mr. Farren replied US Airways has pledged to us outside of the bankruptcy court to make a significant payment over time, a ten month period for that bankruptcy amount. Not the full amount, but close to \$290,000.

Alderman Guinta stated you said the amount was \$342,000 and change. Unless my math is inaccurate, I'm looking at just from US Airways alone \$349,000.

Ms. Wickens replied that's the transaction amount. The unpaid amount is \$286,000.

Alderman Guinta replied okay I see that.

Chairman Shea asked just by way of explanation Mike, you said that although United is bankrupt along with the subsidiaries we will in time, at least the airport, which is an enterprise fund, will we see possibly \$290,000 of that \$342,000?

Mr. Farren replied that pledge is from US Airways. We have no similar pledge from United Airlines. Technically they don't have to pay us...

Chairman Shea replied I realize that, but aren't they trying to come back together and doing some sort of...trying to get out of bankruptcy court or something?

Mr. Farren replied that is correct. US Airways has emerged from bankruptcy, United Airlines has not yet.

Alderman Guinta asked when we collect this money where does it go?

Mr. Farren asked when we collect from US Airways?

Alderman Guinta replied correct.

Mr. Farren replied it goes to the Airport and it goes into our fund that the City keeps for us.

Alderman Guinta asked so it's an enterprise fund?

Mr. Farren replied it is an enterprise fund. Everything that the Airport does is under the enterprise fund categories.

Alderman Guinta asked is there ever a scenario where we can collect on lost interest?

Chairman Shea replied not the City because it's an enterprise fund.

Alderman Guinta stated no, the Airport. We have \$1.3 million plus...we have \$1.7 million outstanding, I know the interest rate is not what it once was, but it's something.

Mr. Farren replied you're correct. We do not collect interest from the federal government on reimbursement requests.

Chairman Shea stated what you have to understand Frank is that the money that runs the Airport is not taxpayer's money. So that basically we can't lay claim to that simply because we're not contributing. So in essence it's up to the Airport which is an enterprise fund to maintain it according to whatever standards they set and whatever provisions they make. And I believe that when we had a discussion not too long ago I think we left it within the peruse of the Airport to be able to go after these particular situations.

Mr. Farren replied and that is correct. You gave us an exemption to do that.

Chairman Shea continued and you were going to report to us as far as what that particular financial obligation might be.

Alderman Guinta stated the only other question I would have is will the...I think we talked about it last time, SAU 37.

Ms. Wickens replied okay the school. They are pretty current. I now there's a lot of bills out there now but a lot of them have just been put in. Public Building Services can be about \$700,000 that they owe on and the money is steadily coming in, they're at least a month or two behind when they pay.

On a motion of Alderman Lopez, duly seconded by Alderman Guinta, it was voted to accept the report.

Chairman Shea addressed Item 5 of the agenda:

Communication from Kevin Buckley regarding the Pension Benefit audit.

On a motion of Alderman Lopez, duly seconded by Alderman Guinta, the item was moved for discussion.

Chairman Shea stated in lieu of Kevin not being here, Randy you're going to give us quick background about number 5.

Randy Sherman replied yes. If you recall Kevin came in front of you a couple of months ago and wanted to do an audit on the old pension system to verify that all of those that were receiving benefits were still alive. And the recommendation at that time was try to go back through departments to the extent that we could, get some verifications. Ultimately what Kevin ended up doing he's go outlined in his letter here, but of the 40 confirmations that he did end up sending out, he's been able to verify 38 of those. We still have two pensioners that we can just not verify whether they're alive or not. Kevin's recommendation is to, and both of these pensioners receive their pension via direct deposit, so Kevin's recommendation at this time is to change the direct deposit to a payroll check and then send the pensioner notification that he has the checks and that they need to contact him to collect them. We really can't think of any other way to verify whether these two individuals are still alive or not.

On a motion of Alderman Lopez, duly seconded of Alderman Smith, it was voted to support the recommendation of stopping the direct deposit for the two retirees and hold the checks in the Finance Department's safe until they comply with the audit request and also the recommendation that all retirees provide a current address and phone number in order to receive benefits through direct deposit.

Chairman Shea stated now we have someone from the audit, Scott. If Scott could come up please and make a brief presentation. Scott is going to make a presentation this evening to the Board of Mayor and Aldermen and therefore he's going to give us what they call a preliminary insight.

Scott Basset stated I'm a partner with the audit firm of McGladrey & Pullen and I'm here this afternoon to give you an overview of the financial results for the City for the fiscal year ending June 30, 2002. As you may or may not know, we've talked the last couple of years about a major overhaul in the financial reporting process as far as a municipal type clients. The accounting board dictates the professional standards we have to use and designed this in three phases with the largest cities being the first to implement this new overhaul. The City of Manchester has gone through this and what I'd like to do is just kind of briefly talk to you a little bit through the financial statements. I know you're just getting them now and I'd be happy to come back once you've had a chance to digest them next month. But there's two key issues that I think that are going to make it much easier for the average taxpayer to go through the financial statements. There's what we call a management discussion and analysis and in there instead of going through 110 pages of numbers and schedules and columns and rows, what it does is it in a narrative format it presents the finance results of the City and gives the key information that taxpayers need to know. So with that I'll just briefly take you through some of the highlights of the audit and what our responsibilities were to audit these financial statements. We conduct our audit under generally accepted audit standards within the City. You had a couple of complex transactions that took place during the year. On approximately November 1<sup>st</sup> of 2001 title of the civic center property and the civic center transferred over to the City. And as you know there's a fiscal funding clause based on some revenues to the budget on a yearly basis to determine if you have to make any payments above that. So with that transaction, the City accounted for that as a full contribution basically using round numbers that the civic center had a value of approximately \$65 million. The City accounted for that as a contribution to their government wide statements. Basically you increased your net assets. And legal title did transfer. We had numerous conversations with all the parties involved between bond counsel and various attorneys that helped you with this deal. But from a pure accounting standpoint we had a little bit of an issue with not recording any of the corresponding debt associated with the bond issue. Obviously the bond issue was not an issue of the City of Manchester, it was designed that way, but as ordered as we always have to take a look at substance

over form and this full disclosure of the City's view on that we just put in a sentence stating that we could not get comfortable with the caring value of the civic center being presented in the government wide financial statements. And I wouldn't say it was a disagreement that we had, we had both came to what we thought were sound conclusions and we just decided this was the way to go and the City footnoted nicely in the financial statements and it's easy for the reader to see, just the course of that transactions. It was very, very complex. We looked at MHRAs books, again went through the whole structure of the transaction and not to bore you with the details but there's some literature out there that dictates...I'd say it's a gray area and we ended up on the other side of the fence on the City with it. And being auditors, as you know, we try to do it right, but we also are very conservative and that's where we came out on that. But in this current year financial statements going beyond the technical issues there, within the comprehensive annual financial report. On a government wide basis the assets of the City exceeded its liabilities.

Chairman Shea asked is there some reference in the book that you're going to...

Mr. Basset replied yes if you go to page 17. And this is the MD&A that I talked about and this will walk you through the financial results of the City. On a couple basis, the government wide basis is not a budgetary basis at all, but we talk about these numbers and not knowing where they'd fall out because they were basically the first time they were presented in this type of format. Starting with page 17 and going onto financial highlights, as you can see there in the first bullet, total net assets at the close of the fiscal year were approximately \$345 million. Total net assets for government activities at the end of the year were \$63.5 million, included in that \$63.5 million is the civic center and for the business type activities, which is your airport and EPD and the various business type activities, it was \$282 million. The unrestricted net assets were \$25.3 million 7.3 percent of the City's total net assets. The City's net assets increased by \$95.1 million or 38 percent from \$250 million to \$345 million. Again, included in a big part of that number is the increase for infrastructure assets and also accounting for the civic center. Governmental funds, which are the type of transactions that we have usually dealt with in the past, had ending fund balances of \$43.4 million and \$9.65 million is available for government spending. The unreserved general fund balance at the end of the year represents 3.9 percent of the total general fund expenditures and transfers of \$118 million. If you go to page 21, this will show you a little bit in a summarized format the breakout of the asset and where the assets are parked as of June 30, 2002. And as you can see as you walk across the page the bottom number being \$345 million worth of assets, total net assets within the City. From a budgetary standpoint is the budget which you do have some control over obviously in what you pass each spring and what's measured against and have your financial updates on throughout the year, the City with an improved fund balance over fiscal 2001 the City's rainy day revenue stabilization increased from \$9 million to \$9.5 million, almost \$9.6 million. The City's undesignated fund balance also improved



from \$3.7 million to \$4.6 million. In the various reserves out there you had for some long-term liabilities were also significantly strengthened during the year. On page 25 in that booklet it takes you through some of the reasons for those favorable budget results. Another unique transaction that took place during the year, the City funded their unfunded pension obligation in the old pension plan, issued approximately I believe \$20 million, \$18 million and pension obligation bonds that were put into pension trust and basically made up for past contributions that were not made. We also went through refunding this year and those are just significant types of things that took place. Also for the first time infrastructure assets were included in the financial statements. We also...we typically record assets at historical cost, this year they are recorded at cost less depreciation. Similar to what you'd see in the commercial environment. I talked about net assets. For the first time we've taken all of the assets, fixed assets at net cost and all the liabilities and measured them as you would in a commercial environment and that's how we came out with the favorable balances. And those were the significant events that took place during the year and the financial statements remain strong. I think the results were positive. Your fund balance remains in a positive format and in addition to the financial results, we also went through the internal controls of the City, not to give an opinion on the internal controls, but to help us plan our audit. We did have four comments. I believe last you may have had seven or eight, and so three or four were eliminated through the recommendations that we had made in the past. And the four are management letter comments but their something again I would take a look at and analyze the cost benefit and see if the cost outweighs the benefit, obviously that's a management decision to be made. But these are the four comments that we did come up with as we went through the course of the audit. Reconciliation at Water Works they maintain information on a computer system different than what the City does, and we would suggest that a formal reconciliation take place during the course of the year to make sure that everybody's on the same page. Contract compliance officer; obviously there's various grants out and with these grants and these bond issues and things of that nature, contract compliance has become important. Uniform departmental cash receipts; this is a tough one. We mention it, but the City takes in revenue at many various locations throughout the City, whether it be for golf fees, parks and rec fees, building use fees, but there's different areas if it was centralized or uniformed I think it would improve the City's internal controls. And the last one that we had, segregation of duties in the purchasing function. In many instances the same person was responsible for ordering the goods, approving the purchase, and receiving the goods. What we'd recommend that you kind of segregate those duties and the receipt and the ordering be a little bit different for the approval process. That's what I had. The Finance office worked very hard this year getting the statements in this order and it was a large, large undertaking with some complex transactions and they did a really nice job. So I'll open it up to questions if you have any right now.

Chairman Shea asked on page 21, where it says the total assets, I don't have a comparison from last year, so generally speaking...

Mr. Basset replied if you turn to page 22, and there's a...that's from a net asset standpoint, the governmental activities which are your general fund non-business type activities, we had a small decrease in net assets of \$2.3 million. We went from \$65 million down to \$63.4 million and within the business type activities, which include the airport, and the EPD and Water Works, we had an increase of \$29 million, with their net assets ending at \$282 million. So we did have an increase. I will say next year...the first comparative information wasn't available, wasn't mandated, going forward the Gatsby requires that comparative information be supplied.

Alderman Lopez stated this letter that...I'm trying to find out where the management letter is. Do you have a management letter?

Mr. Basset replied yes we did, and those are the points that I talked about.

Mr. Clougherty replied that is the management letter.

Alderman Lopez asked you're calling this the management letter then?

Mr. Basset replied yes sir.

Alderman Lopez asked did you find these observations and recommendations in previous years?

Mr. Basset replied yes these are repeated from the previous year. I believe last year we had eight and four were taken care of during the course of the year.

Alderman Lopez asked and throughout your whole audit, this is the only management column we have with this total?

Mr. Basset replied again we don't give an opinion on the internal control so what our responsibility is to review the transaction to help us plan our audit. As we went through the process, we're not saying that we looked at every transactions cycle that the City has, but we have to look at the material ones to help us plan the audit and from that that was the byproduct of our planning of the audit.

Alderman Lopez asked did you inspect any contracts?

Mr. Basset replied we go through a purchasing contract through out cash disbursements...

Alderman Lopez asked do you inspect all of the contracts we have in the City?

Mr. Basset replied no. We would sample those.

Alderman Lopez asked you just pick and choose? Just a sampling?

Mr. Basset replied that's correct.

Alderman Lopez asked your observation, your recommendation then, that's an ongoing problem that we have?

Mr. Basset answered that's a repeat, yes it is.

Alderman Smith stated I'd like to follow up on that. Why is there a discrepancy between the Manchester Water Works and the Finance Department in regards...?

Mr. Clougherty replied there really isn't Alderman. This was the end of fiscal year 2002 and 2003 we are reconciling and we are doing exactly what he recommended on a regular basis. So that's been addressed. You should have a letter from the Water Works from I think Phil Croasdale or Tom Bowen that responds to that.

Alderman Smith replied yes, it's dated May 19, 2003.

Mr. Clougherty stated I think they agree that we're reconciling, going forward, we've taken their advice...so although he included it because in 2002 we've again moved to deal with that and you shouldn't see that next year and if everything stays equal then you'd be down to the just the three general comments on the central contracting, the segregation of duties in the smaller departments that are a one person shop, where one person may be doing everything, which is hard to deal with.

Alderman Guinta asked Kevin the letter dated October 1, 2002, the letter submitted by you, correct? In the first part of the report.

Mr. Clougherty responded right, in the first part of the report.

Alderman Guinta stated on page 7 when you refer to the FY conversion, at this time, October 1<sup>st</sup>, you were suggesting, or your recommendation for that conversion bond money, be applied...you identified that there are several uses but you get into specifics as to what we use the money for. Clearly that money is now going to be going to something else, so things that you suggested do they still need to be done?

Mr. Clougherty replied I'm not sure I read that the same way that you're reading it. What we said is, when the fiscal year conversion matures, there's going to be \$6 million on the school side that we...

Alderman Guinta stated okay I see it. Never mind. Regarding the rest of the report. Can you just talk briefly on...? What's a comparison city, financially?

Mr. Basset replied possibly...forgive me but I'll just talk about some Connecticut cities that we had gone through. The City of Stanford, the City of Norwich, Connecticut, a couple of these to give you an example. As you compare these the jury's still out. In my view with these new financial statements I think you still get back to the key benchmarks of how you run the City. You look at tax rate collection, you look at growth, you look at the status of your pension plans, and the ability to pay your obligations. So that's where most of the confusion is coming from. You could end up just because of a policy with a deficit fund balance. You could be the best run city within the country based on...but you have a policy where you have capitalized assets that are at a higher threshold, you have an aggressive depreciation policy which would affect the status of your net assets. So I'm not trying to avoid your question, but a fair comparison at this point, I don't think I could give you apples to apples at this point.

Alderman Guinta asked on Page 17 under the financial highlights, the first highlight refers to assets exceeding liabilities to the tune of \$345 million?

Mr. Basset replied that's correct.

Alderman Guinta asked can you just explain that a little bit?

Mr. Basset replied included in that number are your fixed assets. A big part of that are your airport improvements and your infrastructure assets within the City.

Alderman Guinta asked so there's no cash.

Mr. Basset answered there's some cash in there, but this significant part of that if you look at what makes up that \$345 million, are your investments and capital assets, net of related debt. So if you...and airport improvements say is \$40 million improvement and it's being depreciated over 50 years, with a debt service, a debt requirement on that particular asset is being paid off over 20 years is your investment in fixed assets, your resources are there, so what it represents is that you've made a major contribution to the infrastructure of the City.

Alderman Guinta asked how does this report affect our bond rating?

Mr. Basset replied I suspect that this report gets submitted...

Mr. Clougherty replied it's a little late, because of the new statement everybody's late, I think there's a lot of cities and towns that are late, so I don't think we're going to have a problem that way. But in terms of the content, you're reserves are strong, your management letter you've got just a couple of things wrong.

Alderman Guinta asked if there's any impact, there would be a positive impact?

Mr. Clougherty replied it would be a positive impact. I think we're already a strong rating, we've already got a strong credit rating, if anything it's...

Alderman Guinta asked what is the credit rating?

Mr. Clougherty replied AA2. So I think it gives us a...if we can stick to the discipline, you've got a chance to maybe go up. So this is a positive report. And again...you heard a lot in the last month or so that cities and towns are in the worst shape they've been in since the depression. One of the reasons why they're in the worst shape since the depression, is because of the new Gasby 34 statement that's had to come out. That's put a lot of cities and towns into a real negative position, much worse than we are. And I think as Scott is saying, and this is the first year that that's happened, next year it hits all of the smaller towns. You think there's yelling and screaming now, wait until Gasby 34 has to come out from all of the small towns and they have all of these deficits. When Gasby 34 was first proposed, there was a lot of...the Government Finance Officer's Association in the United States, the AICPA, the International City Manager's Association, all said if you go this route and put in this statement, it's going to cause problems and you should phase it in over time. But that was not adhered to by the Gasby and they put it in. And I think that's the point that Scott's making. Some cities our size weren't able to comply as well as we were this year and it's going to take a while for it to get implemented so you can be comparing apples to apples. But if you take that statement out of the equation, and you take a look at all the other statements that are in here that are the ones that we've seen year in, year out and that's what really the rating agencies are looking at. You're almost taking that first statement and saying well that's great, we understand it's an exercise and people will get better at it, but they're looking at the continuum of reporting that's been there and when they look at our, we're still a strong, strong AA level. I think if anything, we're continuing the course.

Alderman Guinta asked Scott do you have a recommendation? One of the things I'm looking at right now is when we budget...our annual budget, there's always a fund balance for various reasons, by statute, I'm sorry by ordinance, some of that remaining money has to go to the rainy day fund and tax stabilization account. The concern that I have is you set a tax rate or tax increase, we're looking at 6 percent right now. Part of

the money in that fund will be used this year for things that are just not included in the budget. Going forward one of the things that I'd like to do in trying to be more accurate in the tax increase in the overall budget is to try to theoretically, I don't know if it's possible, but come up with at the end of the fiscal year zero. Instead of...I think...and I don't mean to say that we're not projecting revenues and expenditures inaccurately, it think that we do a good job of it, but the concern I have is when you have a little bit money left over at the end of the year by City ordinance I believe it is Kevin, some of that money has to be disbursed to rainy day and tax stabilization. So taxpayer money is not going back to the taxpayer. Is there a way to resolve that particular issue without negatively affecting a bond rating?

Mr. Basset replied the fact that the City has gone through the process of...as you've explained it in my feeling has always been with this is that money is going back, it's going to avoid deep spikes in your mill rate assessment. So you're accumulating funds to keep pretty much a level...whatever that may be two percent, five percent that's a management decisions. But whatever that increase is, instead of going two percent one year and 15 percent the next year, what these monies are to be used for keep it pretty much at a level standpoint. So the fact that you're doing that in my opinion is a positive attribute within the City. It's a key budget. It's not say that okay we're accumulating funds one year and we're going to take it the next year. If you look at this year, income from investment funds we were short on a budgetary basis by close to \$700,000. Now we could not have predicted that but the fact that you an adequate fund balance and you watch your expenditures, helped you get through the year with little impact, if any impact, on your fund balance. I don't think you could do that because there's still...you can always control zero-base expenditures, but you can't control your revenues. You can be aggressive in collecting your revenues, but sometimes interest rates going down to 4.5 percent during year, and from when the time you budgeted I think it's a positive fact that you have some reserve funds to offset those unfavorable results.

Alderman Guinta asked in implementing that policy, are we not inflating the tax increase beyond what's necessary from a...maybe you can't answer because it's more political I think in nature. Just to make it very simple, if my budget is \$100 and I have \$110 that I'm putting towards that budget, I have \$10 left over. To me it makes sense that the next year if my budget is \$100, I apply \$90 instead of \$100. We're not doing that in the City and I'm curious to know if other cities apply the same principle that we are. I understand the need to have some sort of revolving reserve for unexpected or unintended issues throughout the year, but there's got to be a way we can tighten that.

Mr. Sherman asked can you turn to page 39 of the report?

Mr. Basset stated on page 39 and you're right it's more of a management policy than an audit question. I'm sensitive to that issue but what I can tell you as I walk through this budget is what I see if I was looking at the budget what you folks did. On the revised budget looking at the last number, the City had planned to use \$1.5 million of fund balance or rainy day fund. So you were budgeting to use a portion of that surplus on a year to year basis and I believe this year it's a similar...

Alderman Guinta interjected that's fund balance. It's not rainy day...

Mr. Basset replied it's fund balance but it is taking...if you worked your budget not to use any fund balance and you would have excess amount, that would go to the rainy day fund, so by the fact that you're...

Alderman Guinta stated this is exactly where I'm getting at. We have \$9.5 million in rainy day fund? Correct?

Mr. Clougherty replied right.

Alderman Guinta continued why do we need to put more money in that fund? I know there's a percent, we talked about it yesterday and there's a percentage and I suspect that percentage has to increase as the budget increases. So...

Mr. Clougherty stated as your budget increases and if you keep your budget level then you don't have to increase that. The way you do that is on your expenditure side. I think that's the point that's being made here, not by raiding your revenues. Cut your expenditures.

Alderman Guinta added cut your expenditures and as you...just so I understand, what you said is that's a management decision.

Mr. Basset replied in my opinion it is, which is the political body, the political body within the City.

Alderman Lopez stated I just want to follow up on this so...I think you're an expert. If you're looking at this and on the theory that Alderman Guinta is saying, we would go to the policy saying, we're going to have \$2 million left over. So what we'll do is incorporate that in the tax, so at the end of the year hopefully if everything plays out all right, we won't have a fund balance. It will be zero. You as an auditor looking at those, what would you think is going on? Would you prefer looking at something like this where we have a fund balance going in different directions, or looking at a zero?

Mr. Basset answered what I think, I think there's a range out there that you have to look at to maintain your fund balance. I guess to answer your question a little bit, the policy makers set ranges on where their fund balance has to be at the level expenditures that it has to be. And that's how they manage basically their surplus funds from a year to year. What's that range? You go three different rating agencies. You may get three different ranges of what that rating should be. But I will tell you from a rating agency standpoint and you go to the market quite often, it doesn't hurt you to have that policy where you're...the policy in place in my opinion is something that is favorable for the City. I'm not going to get into the percentage that goes in and out, but the policy that you have recognized the fact that if we do happen to save expenditures or have a great year on the revenue side, we're taking that surplus and using it in future years where the economy may take a turn, I think is a favorable policy. So maybe you look at it but I would not be my recommendation that we take the surplus...I do have one city that does that and right now they're looking very hard at it where they don't think that's the policy to go through at this point. It's a very large city and their policy is pretty much getting to what you're saying, if we have a surplus that goes two years down the road because that's basically you can't do it immediately. They're really taking a hard look at that and thinking about changing that policy and this is a AAA policy where the rating agencies are starting to take a look and say why don't you have a fund balance. Why aren't you looking for the future for debt service and things? So they are rethinking that. So I guess my recommendation is you live within a range and if the policy makers accept that range, I think that will...and as you do now stabilize the impact on your general fund budget from year to year. This year we were short revenue by \$2.6 million but fortunately we made it up from the expenditure standpoint. I don't think I answered your question. I can just say what other cities are doing out there.

Chairman Shea stated I just want to ask Kevin, we have an AA2 rating? Is that predicated somewhat on the amount of money that we have in our rainy day fund versus others? So let's assume that we didn't have that and we had an A rating, what would be the difference in borrowing? In other words does that make up for the difference in terms of having every bill paid?

Mr. Clougherty responded yes, and it varies. Right now you've got collapsed rates. Interest rates are small so you could get away with it right now. But wait until the rates go back to the more traditional levels, eight percent and there's 200 basis points between an A and an A 1. Then the money really starts to hit you and once it's changed it's all based on trends. And once you lose your rating, it's going to take you, I think it took the State ten years to get their rating up one notch. So every one of those \$20 million bond issues that you do is going to feel the impact of that and that gets to be a real big number.

Chairman She asked what is the real big number that we're talking about roughly?



Mr. Clougherty replied a couple million bucks over a ten-year period.

Chairman Shea replied that's not that small.

Alderman Thibault stated now I just heard you Kevin and I think when we were talking about the Airport and also the Water Works. Aren't they autonomous...?

Mr. Clougherty replied the operations are enterprise operations. We've structured them intentionally that way so it wouldn't have an impact on the taxpayers, but they are still part of the City. You own them and...

Alderman Thibault asked and when we bond, we bond for them as well.

Mr. Clougherty replied right.

Alderman Thibault stated but the impact on the tax rate from them is negligible.

Mr. Clougherty replied right now it's not. In other cities, and Scott would tell you this, there are from your water and sewer utilities, not so much from the airport because of your FAA standards, but from water and sewer, there are payments in lieu of taxes on those enterprises through the general fund.

Alderman Thibault asked you mean the new sewer things that are going on here in the City presently? Could you explain that a little bit?

Mr. Clougherty replied you take a look at Pennichuck Water Works, a private company. If you pay your rate to Pennichuck in Nashua, just as we pay our rate to the Manchester Water Works. What happens in Nashua, the rate is a little bit higher because that payment that goes to Pennichuck a piece of that comes back to the city as a payment in lieu of taxes for the general fund to cover the city services in the water department here. That's another reason our numbers are lower. But again if you look at Auburn, if you're a resident of Auburn and you pay your water bill, and I'm a resident of Manchester and I pay my water bill, but yet the resident in Auburn is getting taxes paid by the City's water department to Auburn. So you could do...there are...it's not uncommon for payments in lieu of taxes to come from enterprise operations, but that has not been structured here in the past.

Alderman Thibault asked and hasn't the federal government given us the right to in fact charge them 14 or 18 percent, I forget what the percentage was, higher than Manchester if you will, in order to accommodate some of this?

Mr. Clougherty replied the Public Utilities Commission sets the rate for out of town and does give them the opportunity. I think what we're trying to do with the new bond issues stabilize that.

Alderman Thibault asked the higher rate that we pay in Manchester?

Mr. Clougherty replied yes.

Alderman Guinta stated Kevin a final question from me. The letter that you sent to the Mayor dated October 1, 2002, that did not go to the Aldermen?

Mr. Clougherty replied the cover letter really gets disclosed with...the date that's on there is the date that we go back to cover, but that's been a work in progress right along and never went to the Mayor. He gets it the same day as you do, which is today.

Alderman Guinta stated I didn't get the letter, but I suspect you have talked to the Mayor between October 1<sup>st</sup> and now with respect to some of your recommendations within this letter regarding bonded projects and things of that nature?

Mr. Clougherty replied yes. A lot of what we're indicating there is my recommendation generally, not so much to any one audience. I think that the letter does two things. We don't have in the City an annual report. So I try to the extent I can to use this vehicle as somewhat of a City report to lay out what happened in the City this year. So if somebody were to come back and want to look at financially what happened, but also what were the major items, it's included in this letter. So I approach it that way and I also give general advice and recommendations and forecast with respect to the economy. That's one of the requirements of the management discussion analysis that Scott was talking about. But I don't confer, consult with the Mayor in developing that. When it's released, it's released.

Alderman Guinta asked do you think that we should have an annual report.

Mr. Clougherty replied yes. My in-laws live in Ogunquit and Ogunquit's town report last year listed everybody that paid their taxes, how much they paid, and who didn't pay. For everybody in the city to see.

Alderman Guinta asked what would we have to do to have one?

Mr. Clougherty replied those are the things that are in an annual report and I think those are things that would be of importance for the City. So to the extent that I can use this as a vehicle, I use it as an annual report, or it would be my piece of an annual report for the City that would go out.

Alderman Guinta asked an annual report would cost how much, would be additional cost to the City?

Mr. Clougherty replied I think the cost of annual reports are going down because fewer and fewer of them are being printed. They're being done electronically. Once upon a time there was an expense for printing but I think the printing costs are going down, it's more pulling them together and getting them out on the Internet.

Alderman Lopez stated I just want to follow up on my question about contracts. It just dawned on me. Kevin and Randy you remember the conversation in prior years is that when an auditor came in and did not check all of the contracts. You said a sample was made here and then we found that some of the contracts in previous years that people are non-compliant. How do you as an auditor...if you don't check all of the contracts, who is responsible if we're paying you to be the auditor?

Mr. Basset replied you're paying us to give an opinion on the financial statements from...we're not going to take a look at every single...we're looking at material contracts by all means we are doing that. But to look at every contract, that's not what's in the scope of our engagement to do that.

Alderman Lopez asked Kevin whose responsibility is it to do that?

Mr. Clougherty replied I think that's the point that he raises in the management letter. Right now if...and we've had this discussion before, to the extent that I know of a contract we try to enforce that. On the payable side, it's a little bit easier, because if somebody is trying in one of the departments to make a payment against a contract then chances are the people in our office, and I think that's what Scott is verifying, is on that payment side they can say well where's the contract or where's the authorization? The problems we've had in the past Alderman are on the revenue side. the City doesn't get the revenue it's supposed to get. I think those are the controversial areas. But again, if we don't know that the Traffic Department or the Economic Development Department or somebody else has entered into a contract that's going to result in achieving revenue for the City, or as amended that, we would never know that unless somehow we stumble on that as part of the sampling or as part of some other situation. I know Randy had said accurate and that's always been our concern is that in order for a contract to be a contract, and I think what is being recommended by Scott, there should be some door to go through in order to be able to collect those. For example, the State of New Hampshire, there's no contract. The State does not have a contractual obligation unless Governor and Council approve the contract. You want a contract with the State of New Hampshire you have got to submit it on a standard form, got to go to the Secretary of State and make sure that you're registered to do business, it's then referred to the Attorney General to make sure that it's in the standard format and all of the protections are taken care of to

protect the State's interest, it appears on an agenda, and granted the agendas for Governor and Council are two stacks are this high. But every one of those contracts or amendments to those contracts are approved and then there's an official record. Whether that's an expenditure or whether that's a revenue side and that's how they track it. We don't go through that process here. Departments can enter into contract with the exception of multi-year, they can enter into amendments a year at a time, which extend for long periods, and we will not see that, particularly on the revenue side.

Alderman Lopez stated and that's the point I wanted to make. Maybe you Finance people, you've got to come up with some type of policy because this comes every time we get an audit and we are losing revenue because people sign a contract and they put it aside in a desk drawer and it stays there and then year one or year two you're supposed to get an increase because of the cost of living or whatever the case may be and then in year seven you find out that they haven't paid it and then everybody scrambles. You're absolutely right Kevin and I would wish that we would have some type of system in this City other than 26 departments running departments.

Mr. Clougherty replied I don't disagree with you and the auditors don't either.

Alderman Thibault asked Kevin in line with Alderman Guinta's questioning a few minutes ago. What kind of a cost are we looking at to get this kind of a report? Is there a cost to that?

Mr. Clougherty asked an annual report?

Alderman Thibault replied yes.

Mr. Clougherty replied most of it is really is the accumulation of information. Like in our department it's part of our doing business. And I would assume that most you're your departments...you're water department puts out an annual report, they already put out a glossary report, a good report. The retirement group puts out one. I think Police does a good job. So you have many of the pieces out there it's just no one has the time or the mission to pull it all together in one document.

Alderman Thibault asked if we asked Finance to do this, what are we looking at as a cost to compile a report such as this to let this committee at least know where we're at?

Mr. Clougherty asked would you give me a couple of weeks to get back to you at the next meeting to give you a number on that and just tell you what the process would be and maybe I could get a copy of all the annual reports?

Alderman Thibault replied what the cost would be yes.

Mr. Clougherty replied I'll get you copies of other city's annual reports and get some comparable data from them.

Alderman Thibault stated that would answer Alderman Guinta's question and certainly I think some of the board members also.

Chairman Shea stated Alderman Lopez raised such an important point that I don't want it to go undiscussed and so forth about contractual agreements. I'm not sure if the responsibility should be in terms of your department or the City Solicitor's department or someone, but could you get together with the City Solicitor's office please and then have a report back to this committee regarding how best to handle contractual agreements in terms of getting some consistency. I'm not sure if Scott has any insight into that and could add his expertise to this but I think that's so important. I think that Alderman brought up that point because we are losing so much revenues from unfunded we'll say types of contractual agreements that aren't being realized.

Mr. Clougherty replied given the different hats that I wear, what I might do is ask Kevin Buckley to get that from an audit perspective so that he'll independently look at it rather than me coming in and saying as the Finance Officer... He's out this week we'll have him take a look at it and he can work auditor to auditor with Scott here and get you something.

Chairman Shea asked does that meet the Committee's thoughts?

Alderman Smith asked Kevin, how much money do we have in the tax rate stabilization reserve account?

Mr. Clougherty replied \$9.5 million. Tax rate stabilization or revenue stabilization?

Alderman Smith replied tax.

Mr. Clougherty replied tax rate, I think there's...I want to say...

Mr. Sherman replied it's like \$1,280,000.

Alderman Smith asked I'd just like to move down if I may on page 7. We're going through some tough times, and I guess if FY conversion year 2005 we're going to make it...our debt service and so forth is going to be...

Mr. Clougherty stated you get some relief in 2005 Alderman and you're able to do some things in fiscal year 2005 that other cities and towns will never be able to do. This is truly a once in a generation opportunity to put in place some things going forward for the future. It's an unprecedented opportunity for you.

Alderman Guinta stated two quick points. How much of the \$6 million do we have in 2005?

Mr. Sherman stated let me just correct what it says here, and Kevin I think just misspoke, 2005 we make our last payment, so it's 2006 that we get the benefit from.

Alderman Guinta asked so what kind of benefit are we looking at in 2006?

Mr. Sherman asked what's the City's share Joanne? About \$3 million? About \$3 million, so the City debt service will drop about \$3 million in 2006.

Alderman Guinta stated okay. That means we could bond a new project, that means that we could have a tax cut, we could apply it to a tax cut?

Mr. Clougherty replied I would not recommend that you use it to do a tax cut. I would recommend that you take that money, and as I'm saying here, put it into a capital reserve, because if you take it and reduce taxes, it's gone. Then the next year you go further. You've got...

Alderman Guinta interjected say that again. If we take it to reduce taxes, it's gone?

Mr. Clougherty replied we've seen this happen with the...

Alderman Guinta asked what's the problem with it being gone?

Mr. Clougherty interjected let me explain. You got a lot of money from the State just a few years ago for school. You used that to "lower the tax rate". Guess what? The tax rate is back up where it was, and the reason it is up is because you didn't deal with some of the recurring problems you have. We have some serious vehicle replacement issues, we have some serious requirements for data processing, we have some serious recurring items. Instead of taking and borrowing for those items with high interest rates, take that money, put it aside into a trust fund, let it earn some money. First year you set aside some of the vehicles. Over time that is going to grow and earn interest so that you will never have to appropriate for that again and that is what's going to give you tax rate relief long term. Because you're going to address the spending issues. If you take and do away with it, it will reduce it this year. But three years later, you're going to be right back up and you will have squandered the opportunity of a lifetime.

Alderman Thibault stated but we've been there.

Mr. Clougherty replied yes you have Alderman. But I think you understand what we're saying. Build these capital reserves and you will be able to deal with your equipment needs, you'll be able to deal with your computers, long into the future.

Alderman Thibault stated I think it goes back to Kevin, maybe 20 years ago, when we used to keep money in the account to do this and we've stopped that. And this is why we're caught with the dilemma again for the Police, Fire, the Police station, Police wagons or whatever you want to call them, is because we've taken that out of the budget. That used to be in the budget 20 years ago as a replacement account. So much per year we used to put in this account, and it's no longer there. Why did we omit that?

Mr. Clougherty replied that's why if you put it into a capital reserve fund it's restricted for that use, it's a trust arrangement, and you won't get back into that situation again. You'll be protected and you'll be able to make sure that your Police, your Fire, your vehicles are taken care of.

Alderman Thibault stated the interest alone used to fund those vehicles, basically, if I remember right.

Mr. Clougherty replied exactly. That's where you want to be.

Alderman Shea stated we appreciate your discussion and so forth. We have to close because it's getting close to another meeting.

Alderman Guinta asked do we need a motion to accept his report?

Chairman Shea replied no, I think this is just for exploratory reasons. He's giving us a preview.

Mr. Clougherty stated it's on the agenda tonight.

There being no further business to come before the Committee, on a motion of Alderman Smith, duly seconded by Alderman Guinta, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee